

**RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

RURAL WATER DISTRICT NO. 2,
COMANCHE COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors

Rural Water District No. 2, Comanche County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2013 and 2012 and for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 2, Comanche County,

Oklahoma, as of December 31, 2013 and 2012; the changes in modified cash basis financial position; and, cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2014 on our consideration of Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer", is written over the printed name.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 19, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Rural Water District No. 2, Comanche County, Oklahoma

We have audited the financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of and for the year ended December 31, 2013, and have issued our report thereon dated March 19, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared using the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Comanche County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Rural Water District No. 2, Comanche County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 2, Comanche County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 19, 2014

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2013 AND 2012

ASSETS	2013	2012
Current Assets:		
Operating cash	\$ 79,850	\$ 30,776
Certificate of deposits	85,741	85,239
Capital improvements account	12,251	10,734
Membership accounts	65,872	119,161
Total cash and cash equivalents	<u>243,714</u>	<u>245,910</u>
Restricted Accounts		
Debt service	22,003	30,601
Debt service reserve	84,010	84,006
Project fund		
Total reserve accounts	<u>106,013</u>	<u>114,607</u>
Reserve certificate	1,000	1,000
Capital assets (Note 2)		
(net of accumulated depreciation of \$1,412,608)	572,902	626,669
Work in progress	463,765	143,538
Total Assets	<u>\$ 1,387,394</u>	<u>\$ 1,131,724</u>

LIABILITIES AND NET POSITION

Liabilities:		
Current Liabilities:		
Current portion of long-term debt (Note 3)	\$ 81,000	\$ 65,000
Noncurrent Liabilities:		
Long-term debt, noncurrent (Note 3)	895,560	730,000
Total Liabilities	<u>976,560</u>	<u>795,000</u>
Net Position:		
Net investment in capital assets	60,107	(24,793)
Restricted for debt service	106,013	114,607
Unrestricted	244,714	246,910
Total Net Position	<u>410,834</u>	<u>336,724</u>
Total Liabilities and Net Position	<u>\$ 1,387,394</u>	<u>\$ 1,131,724</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water sales	\$ 568,624	\$ 448,670
Miscellaneous revenues	<u>7,834</u>	<u>6,700</u>
Total Operating Revenues	576,458	455,370
Operating Expenses:		
Salaries and wages	136,081	149,875
Payroll taxes	12,194	11,976
Employee benefits	27,394	26,619
Repairs and maintenance	24,562	25,936
Fuel and auto expenses	11,941	13,598
Insurance and bonds	15,464	13,736
Professional fees	5,586	40,064
Director fees	3,800	5,950
Office and postage	6,302	6,972
Meter readings	9,529	11,070
Water purchases	141,944	42,395
Telephone and pagers	2,507	2,572
Utilities	16,433	14,618
Water tests and fees	5,527	5,516
School and travel	1,178	1,517
Depreciation	62,837	64,865
Other expenses	<u>2,463</u>	<u>1,468</u>
Total Operating Expenses	485,742	438,747
Operating Income (Loss)	90,716	16,623
Nonoperating Revenue (Expenses):		
Interest income	667	1,506
Benefit units	7,130	6,000
Interest expense	<u>(24,403)</u>	<u>(26,288)</u>
Total Nonoperating Revenues (Expenses)	(16,606)	(18,782)
Change in Net Position	74,110	(2,159)
Net position, beginning of year	336,724	306,988
Changes in accounting procedures (Note 4)	<u> </u>	<u>31,895</u>
Net Position, end of year	<u>\$ 410,834</u>	<u>\$ 336,724</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 568,624	\$ 448,670
Other operating cash receipts	7,834	6,700
Cash payments to suppliers for goods and services	(286,824)	(224,007)
Cash payments to employees	(136,081)	(149,875)
Net cash provided (used) by operating activities	<u>153,553</u>	<u>81,488</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(329,297)	(163,859)
New borrowings	246,560	896,895
Principal paid on notes	(65,000)	(902,250)
Interest paid on notes	(24,403)	(26,288)
System development fees	7,130	6,000
Loan fees paid		(25,000)
Net cash provided (used) by financing activities	<u>(165,010)</u>	<u>(214,502)</u>
Cash flows from investing activities:		
Interest income	667	1,506
(Increase) decrease in restricted accounts	8,594	(31,476)
Net cash provided (used) by investing activities	<u>9,261</u>	<u>(29,970)</u>
Net increase (decrease) in cash and cash equivalents	(2,196)	(162,984)
Beginning cash and cash equivalents	245,910	408,894
Ending cash and cash equivalents	<u>\$ 243,714</u>	<u>\$ 245,910</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 90,716	\$ 14,540
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>62,837</u>	<u>66,948</u>
Net cash provided (used) by operating activities	<u>\$ 153,553</u>	<u>\$ 81,488</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Comanche County, Oklahoma was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities on their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), and deposits with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Restricted Reserve Accounts

As part of the loan agreement with OWRB, (Note 3) the District is to maintain a reserve amount equal to 125% of the maximum annual amount due for debt service. At December 31, 2013 and 2012, the District had \$106,013 and \$114,607 respectively, in its debt service reserve account.

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2013 and 2012 was \$62,837 and \$64,865 respectively. The balances for depreciable assets by major category as December 31, 2012 are as follows:

	12/31/12	Deletions	Additions	12/31/13
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	1,744,963		9,070	1,754,033
Machinery & equipment	108,595			108,595
Vehicles	38,896			38,896
Buildings & improvements	60,288			60,288
Furniture & office equipment	14,298			14,298
Accumulated depreciation	(1,349,771)		(62,837)	(1,412,608)
Total	<u>\$ 626,669</u>	<u>\$</u>	<u>\$ (53,767)</u>	<u>\$ 572,902</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a loan agreement with the OWRB in 2001 for water system improvements; to refinance the existing debt to USDA-Rural Development and to establish a debt reserve. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. In January 2012, the District borrowed \$840,000 to refinance this note. The new note has a fixed interest rate of 3.26% with a maturity date of September 2023. The monthly payments are \$7,845. Principal payments are due on September 15th of each year and an interest payment is due on March 15th of each year.

In November 2013, the District entered into a loan agreement with the OWRB for water system improvements including a new well. The interest rate is 3.03% and a .5% administration fee. The payments are semiannual and commence on March 15, 2014 with a final payment due on March 15, 2039.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3 – NOTES PAYABLE (continued):

The following is a detail of the loan activity during the year ended December 31, 2013 and 2012:

Balance at 12/31/11	\$ 857,250
Principle payments	<u>(62,250)</u>
Balance at 12/31/12	795,000
Principle payments	<u>(65,000)</u>
New borrowings	<u>246,560</u>
Balance at 12/31/13	<u><u>\$ 976,560</u></u>

The following is a summary of the District's future annual debt requirements:

Year Ended	Payments	Principal	Interest
12/31/14	\$ 112,146	\$ 81,000	\$ 31,146
12/31/15	129,911	100,000	29,911
12/31/16	131,569	103,000	28,569
12/31/17	128,299	106,000	22,299
12/31/18	130,887	110,000	20,887
12/31/19 - 12/31/23	523,067	476,560	46,507
Totals	<u><u>\$ 1,155,879</u></u>	<u><u>\$ 976,560</u></u>	<u><u>\$ 179,319</u></u>

NOTE 4 – DEBT ISSUANCE COSTS:

Prior to December 31, 2013, the loan costs were being amortized over the life of the loan. GASB Statement 65 was issued which states that debt issuance costs should be expensed in the period incurred. Because Statement 65 is retroactive, a restatement of the financial statements for the year ended December 31, 2012 was required to remove any unamortized debt issuance costs off the balance sheet.

NOTE 5 – RETIREMENT PLAN:

The full-time, permanent employees of the District participate in a SEP retirement plan. The District contributes 6.2 % of gross wages to the employee's retirement accounts. This amounted to \$8,097 and \$7,767 for the years ended December 31, 2013 and 2012, respectively.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 6 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amounts of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2013.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, certificates of deposit, restricted accounts and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 9 – CONTINGENCIES:

As of December 31, 2013 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 19, 2014, the date which the financial statements were available to be issued.